

AN INQUIRY CONCERNING ROMANIA'S DIFFICULT ECONOMIC DEVELOPEMENT FROM THE 19th CENTURY TO WWII. A PLURALIST APPROACH

Andrei JOSAN¹
Radu USZKAI²

ABSTRACT

The purpose of the following paper is that of exploring the causes of Romania's difficult economic development from the 19th century up to the Second World War. Far from assuming theoretical monism in our analysis, our approach will be a pluralist one, highlighting the relevance of analysing the problem of economic development using a wider range of (sometimes compatible) theories. The first step of our paper is the presentation of this pluralist theoretical conceptual framework, which includes (neo)institutionalism, Schumpeter's view on cycles and innovation, Rostow's theory of stages and take-off and Gerschenkron's concept of backwardness. Afterwards, we will aim at mapping the debate between Romanian scholars in the first part of the 20th century who worked on the problem of Romania's economic development. Last but not least, in the final section of the paper we will aim at providing some key empirical inputs for the debate, and correlating that data with the theoretical content from the previous two sections.

KEYWORDS: *economic development, (neo)institutionalism, cycles, innovation, political economy.*

JEL CLASSIFICATION: *N00, O10*

1. INTRODUCTION

The issue of economic development has been a puzzling one for economists, political economists, philosophers and political scientists alike. The question of what are the necessary 'ingredients' for a thriving economy is even more puzzling for a country like Romania, which still struggles to find the right 'tools' for increasing the level of welfare of its citizens and to catch up more developed and dynamic economies like the US, UK, Germany or New Zealand. This search is not only one which has to do with the political realm and public policies, but it is also an intellectual preoccupation. In recent years, Romanian historians or political scientists have dealt with the topic of Romania's economic development either in a comparative approach (Murgescu 2010) or in a (neo)institutionalist fashion (Miroiu 2016). In the following study we have a similar goal: we aim at exploring the causes of Romania's difficult economic development starting from the 19th century up to the Second World War in a pluralist theoretical approach.

In the first section of our paper we will present the conceptual theoretical framework necessary for evaluating the issue of economic (under)development in Romania. The first step will be that of delineating the key elements of the (neo)institutionalist approach, which is one of the most influential theoretical insights in the past couple of decades for assessing the problem of economic development.

¹ Bucharest University of Economic Studies, Romania, andrei_jsn@yahoo.com

² Bucharest University of Economic Studies; University of Bucharest, Romania, radu.uszkai@cadi.ro

Institutions and institutional change are key elements to this approach, as emphasised by Douglass North in his seminal book *Institutions, Institutional Change and Economic Performance*: "Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction [...] That institutions affect the performance of economies is hardly controversial. That the differential performance of economies is fundamentally influenced by the way institutions evolve is also not controversial." (North 1990, 3). In a recent book, Acemoglu and Robinson have extended this perspective, arguing that the key to economic development rests upon the existence and prevalence of what they call inclusive economic and political institutions, as opposed to extractive institutions (Acemoglu & Robinson 2015).

As we mentioned earlier, the theoretical landscape of our research will be widened as to include other, noteworthy and insightful explanations in the sphere of economic development. We consider that a useful mapping of these theories is to be found in Giovanni Luigi Fontana's work (2006, 142-154). In his analysis he includes, besides (neo) institutionalism, Schumpeter's view on cycles and innovation, Rostow's theory of stages and take-off and Gerschenkron concept of backwardness.

Afterwards, the second part of our study will focus on how the issue of economic underdevelopment and the prerequisites of economic development was reflected in the community of Romanian scholars (mainly economists) in the first part of the 20th century. We will briefly present the particular way in which economists and political theorists like Constantin Dobrogeanu-Gherea, Virgil Madgearu, Mihail Manoilescu or Stefan Zeletin analysed the problem of underdevelopment and argued in favor of certain solutions to tackle this issue.

Last but not least, the last section of our paper will deal with a couple of essential empirical elements, like the structure of industrial production or the evolution of the national income. We will correlate these elements with the theoretical input from the first two sections.

2. HOW TO THINK ABOUT ECONOMIC DEVELOPEMENT. TOWARDS A THEORETICAL MAP

2.1 A (Neo)Institutionalist Perspective On The Conditions Of Economic Growth

If we were to summarize the (neo)institutionalist approach, the best way to do it would be to assert that 'institutions matter'. Having the right institutions in the right time and place is a make it or break it precondition for economic development and social welfare. The economist Douglass C. North is well-known for arguing in this manner.

How does he define institutions? In the previous section we alluded to a potential definition: they are the rules of the game of all types of social interactions. To expand this view, we would like to add that "institutions include any form of constraint that human beings devise to shape human interaction. Are institutions formal or informal? They can be either, and I am interested both in formal constraints - such as rules that human beings devise and in informal constraints - such as conventions and codes of behaviour. Institutions may be created, as was the United States Constitution; or they may simply evolve over time, as does the common law" (North 1990, 4). We need institutions, North adds, because they aim at reducing the uncertainty associated with social interactions, either in formal or informal settings.

Why do we need institutions? As many other economists, political philosophers or political scientists besides North pointed out, the most pressing issue we face, taking into account the fact that economically valuable goods are scarce, is that of cooperation. If we lack the right incentives or the formal/informal constraints, utility-maximizing individuals will not cooperate and, as an effect, the results of social interactions will be suboptimal.

Analysing the case of the economic development of Great Britain after the Industrial Revolution will definitely prove to be a useful endeavour. As Fontana underlines, "Douglass North was the scholar who, more incisively than anybody, hypothesized that economic change was the result of

institutional change in response to specific needs of production. He argued, for example, that even in Great Britain, the country that most strongly defended laissez-faire, the state itself played a fundamental role in creating an efficient national market and revitalizing institutions. According to North, the improved definition and application of ownership rights benefited factory organization, and this in its turn led to the adoption of new technologies and the specialization of labour" (Fontana 2006, 149-150). In short, private property rights protected by the state incentivized entrepreneurs to take risks and invest. In the same time, intellectual property rights may have incentivized researchers to invent new and useful means of production which generated the economic development of Great Britain starting from the 18th century.

Arguing in a similar manner, Acemoglu and Robinson reject, first of all, that economic development is determined by geographic conditions or by the culture of a particular country (Acemoglu&Robinson 2015, 57-84). The key to understanding economic development is, as North suggested, institutions. The two economists expand North's perspective, arguing in favour of a distinction between two types of institutions (Acemoglu & Robinson 2015, 84-113). On the one hand, we have extractive political and economic institutions. On the other, we have inclusive political and economic institutions. Having more of the latter and less or none of the former is the key to having a prosperous society and dynamic economy.

Extractive institutions are not conducive to economic development because they fail to give individuals and political organizations the right incentives. In countries with extractive economic institutions market forces are not organized as to work at an optimal level. For example, private property rights are not protected enough by the state, leaving entrepreneurs or regular citizens in a state of uncertainty. Trade tariffs or entry barriers on the market also account for low or suboptimal production. Moreover, the combination with extractive political institutions is fatal. Extractive political institutions tend to concentrate power in the hands of few oligarchs who don't have formal barriers in exercising their power as opposed to a country with 'rule of law'.

As opposed to extractive economic institutions, inclusive economic institutions are the exact opposite. They favour the protection of private property rights and facilitate the entry on the market for new entrepreneurs. Furthermore, inclusive political institutions are democratic and pluralist, allowing for the rule of law and not the rule of either an absolutist monarch or of an oligarchy.

2.2 Schumpeter And The Question Of Economic Growth

For Schumpeter, the issue of economic growth and development should not be viewed as a linear process, but mainly as a process which presupposes certain fluctuations and cyclic patterns. This "cyclic patterns lie at the heart of the capitalist development process [...] Fluctuations are the necessary consequence of the break in stationary equilibrium, and represent the form that development assumes in the capitalist era" (Fontana 2006, 142-143).

What is the main factor which determines fluctuations? For Schumpeter it is Innovation or, to put it in other terms, "doing things differently" (Schumpeter 1939, 80) that accounts for this phenomenon and for economic growth. He illustrates the notion of Innovation using the following examples: "Technological change in the production of commodities already in use, the opening up of new markets or of new sources of supply, Taylor-ization of work, improved handling of material, the setting up of new business organizations such as department stores" (Schumpeter 1939, 80).

The Austrian economist also distinguishes between inventions and innovations. While inventions generally have a scientific origin they do not "depend on a concrete need, so they are not important in the analysis of economic development" (Fontana 2006, 143). Innovations, however, are directly connected with the issue of economic growth and development because they appear as an entrepreneurial response to a specific need on the market.

To give just an example, take a closer look at the steam engine. While it is evident that the steam engine represented an invention, it was also one of the biggest innovations in our history, playing an

integral part in the Industrial Revolution, paving the way for new and improved industrial production or in the emergence of trains, railways and modern transportations.

How are innovations generated? As Fontana underlines, when we see innovations taking place we should search for the innovation entrepreneurs behind them. These innovation entrepreneurs are the key element, according to Schumpeter, behind the process of economic development. Fontana goes on to argue that, furthermore, the "initial risk is rewarded with greater profit resulting from the monopolistic position that the innovation temporarily holds; it is only temporarily, because very soon the innovation will be imitated by competitors, the differential gain will be gradually eliminated, and the system will return to a state of equilibrium, until a new innovation reopens the cycle." (Fontana 2006, 143).

To sum up, looking at the problem of economic growth and development through Schumpeterian lenses means searching for innovation entrepreneurs who try to do things differently. Their economic success is, afterwards, emulated by other entrepreneurs, either from the same country or from other parts of the world.

2.3 Rostow's Stages Of Economic Growth

Rostow's account of economic growth presupposes the existence of five stages which countries underwent until they reached a stage of maturity and economic development: "the traditional society; the preconditions for take-off; the take-off; the drive to maturity; the age of high mass consumption" (Rostow 1959, 1).

Regarding the first stage, the traditional society, Rostow asserts that "the central economic fact [...] is that they evolved within limited production functions. [...] limitations of technology decreed a ceiling beyond which they could not penetrate. They did not lack inventiveness and innovations, some of high productivity. But they did lack a systematic understanding of their physical environment capable of making invention a more or less regular current flow, rather than a stock of *ad hoc* achievements inherited from the past." (Rostow 1959, 4). Things start, however, to change in the transition period of the preconditions to take-off. Rostow considers that, if we take a closer look at Western Europe, the preconditions of take-off appeared as a result of two "characteristics of the post-medieval world which interacted and reinforced each other: the gradual evolution of modern science and the modern scientific attitude; and the lateral innovation that came with the discovery of new lands and the rediscovery of old, converging with the impulse to create new technology at certain strategic points" (Rostow 1959, 4). This stage plays a crucial role in the next one because of a couple of essential elements highlighted by Fontana: accumulation of capital, increased productivity in agriculture and mining, construction of infrastructure, the implementation of education and the formation of human capital, etc. (Fontana 2006, 144-145).

With the preconditions being laid out earlier, let us turn towards the take-off stage. Rostow hypothesizes that economic take-off amounts to achieving rates of rapid growth "in a limited groups of sectors, where modern industrial techniques are applied" (Rostow 1959, 7). The examples given by the economist are textiles (in the case of Great Britain) or railroads (such was the case in countries like the United States, Germany or France). In the take-off stage the impact of industrial activity is decisive. "A self-sustaining process of capital accumulation and increase in productivity begins, with growth rates in production and income that have not been previously experienced. There is a rapid and decisive change in economic structures, which is marked by a rise in productive investment to a level of around 10 per cent of net national product." (Fontana 2006, 145).

In the maturity stage the process from the previous one is extended towards other sectors of the economy, a process which has a quintessential impact on the growth of the per capita income. Last but not least, in the age of mass consumption "the greater distribution of purchasing power for consumption leads producers to invest in product standardization processes in order to lower costs

and widen the market for consumer goods, which is essential if the growth rate of the system is to be sustained" (Fontana 2006, 145).

2.4 Gershenkron's Concept Of Backwardness And Economic Growth

Gershenkron insisted on two of Rostow's stages: the preconditions for take-off and the take-off. As Fontana argues, "Gershenkron focused his analysis on the mechanisms that enabled late-developing countries to start a process of development. Underlying his analysis was the concept of backwardness relative to the leader country, Great Britain.[...] The degree to which they approximated the conditions existing in English society determined how likely, how rapidly and how closely they would imitate it themselves. Where these prerequisites were lacking, these countries could attempt to close the gap or catch up by other means" (Fontana 2006, 147).

As a consequence, economic growth can be explained by the particular ways in which countries emulated the leading example in economic growth. For example, developing countries could imitate British technology without the need of investing in R&D. That is why backwardness might prove to be an advantage in the process of economic development, because the process of imitation leads to rates of rapid economic growth.

Moreover, "the greater the level of backwardness then the more likely it would be for the following to occur: industrial development would be more rapid, there would be greater development of large-scale industry, and greater concentration of production on intermediate rather than on consumer goods. Furthermore institutions actively engaged in accelerating the industrialization process would play a greater role, agricultural growth would be lower, and more foreign expertise and capital would be imported." (Fontana 2006, 147).

3. ECONOMIC DEVELOPMENT: THE ROMANIAN DEBATE

Romanian economists and historians generally argue that the peace treaty between the Russian and Ottoman Empires from 1829 (the Treaty of Adrianople) was a defining moment for Romania because it allowed economic contacts with Western countries in the form of agricultural exports (Murgescu 2010, 114-115). This initiated a process of economic development which stirred a debate in the first part of the 20th century between economists and politicians regarding what should Romania do to catch up developed countries. The first issue at hand was the question regarding the correct strategy for long-term economic development. The undergoing process of modernization in the Interwar period meant an option for industrialisation as a civilizing factor, an argument quite familiar for scholars from the late 19th century like D.P. Marțian, B.P.Hașdeu, P.S.Aurelian or A.D.Xenopol.

For example, according to Grigore Antipa, the goal of the process of industrialisation "was not only that of resolving an economic issue, but also a social and cultural necessity. We do not want only to take advantage of our natural resources just in order to achieve economic profit [...] but we also aspire, with the sacrifices needed, to create a profound civilization in the whole country" (Antipa 1919, 326-327). A.D.Xenopol alluded to the same civilizing impact of industrialisation, while Mihail Manoilescu added that "industry is not only the key for achieving wealth in modern states, but it is also a great school for nations. A nation without industry cannot achieve superior social formulas. Industry is the essential condition and the starting point of any ascending movement towards a superior organization of social life" (Manoilescu 1943, 136-137).

Some scholars, like the Marxist Constantin Dobrogeanu-Gherea argued that Romania was not, in the beginning of the 20th century, a capitalist economy. In his 1910 work, *Neoiobăgia. Studiu economico-social al problemei noastre agrare*, Gherea argued that Romania was, a quasi-feudal country. His starting point is that, in the process of modernization, Romania still maintained a lot of medieval, feudal elements mainly in agriculture, even after the reforms from 1864. He labelled this

state of affairs as neo-serfdom (*neoiobagie*, in Romanian): "an economic and socio-political agrarian setting which consists in the following four elements:

(I) mainly feudal means of production;

(II) apparent liberal-bourgeois rule of law which is, however, an illusion, because Romanian peasants are left at the disposal of their masters;

(III) a legislation which stipulates that the land belonging to peasants is inalienable and which regulates interactions between peasants and masters in the manner earlier described;

(IV) last but not least, the insufficient land titles available for peasants for work and sustenance; as a consequence of this scarcity, peasants are forced to work for the owners of big land owners" (Gherea 1910, 370).

In order to tackle this agrarian issue, Gherea advanced the dissolution of this neo-serfdom regime and the substitution of this institutional framework with institutions present in the Western world. While a Marxist, Gherea's proposal is in line with the (neo)institutionalist approach. He observes that the economic and political institutions are extractive in nature and argues that inclusive political and economic institutions would be the key for economic development. With a similar framework as the Western countries have, Gherea considers that small land owners could become independent, and able to go beyond only sustenance and also become actors on the market.

The state would also have a key role in the process of abandoning neo-serfdom, because it should help protect the work of peasants or help them set up unions. Moreover, the state could also facilitate cheap credit and also change the tax system into a more fair and equitable one.

Gherea also argued in favour of two essential theses. While the first one is called 'the acceleration of the rate of evolution' the second one is 'the law of developing types towards the background' in backward countries in general and in Romania in particular. For Gherea, the notion of backwardness is not just a mechanical phrase but an economic one; backwardness has to do with the stage, state and shape of the economic structure in the process of economic change.

Every time Gherea uses this concept, he associates it with the notions of 'level of development' or 'level of production'. Moreover, he uses it by comparing the 'backward level' of Romania's economy with the 'high level of development' in Western countries, taking into account the emergent phase of our economy in comparison with the level of maturity attained by Great Britain, France or Germany. As a consequence, we might assert that Gherea doesn't allude only to the (neo)institutionalist approach, but also towards Rostow's or Gerschenkron's theories.

This process of becoming more and more 'European' in the economic sphere has to do with enlarging the division of labour, the emergence of the global market or the ascent of global trade. "Following the French Revolution and the process of acquiring the right institutions, Western capitalist states need new markets for the goods they produce but also agricultural products to feed their population" (Gherea 1910, 32). It is in virtue of this process that capitalist countries are incentivized to engage in economic exchange with Romania. After the initial contact, Romania will change and enter a process of institutional reconstruction and evolution towards a capitalist state: "Backward countries who enter into the sphere of more advanced capitalist states will move in the orbits of those states and their whole life, development and social change will be determined by the life and changes of the more advanced countries, by the current historical period, namely the bourgeois-capitalist phase" (Gherea 1910, 33).

The intellectuals associated with the National Peasants' Party who argued that Romania was not a capitalist party started from the observation that Romania's economic system did not achieve the degree of development similar to Western European states. By and large, Romanian economy was an agrarian state, dominated by small land owners.

Moreover, they also argued that our economy was a dualist in nature. On the one hand, some sectors were predominantly capitalist. However, on the other side, agriculture (the most significant branch) was outside the capitalist sphere: "On a whole, agriculture, in which large proprietaries (similar to other types of economic enterprises) amounts only to 1/7 of the available land for use, being

dominated by a couple millions of small households. Their activity is characterised by a different set of values than the core elements of a capitalist economy, like salaries, profit or interest" (Madgearu 1940, 357).

According to Madgearu, capitalism was "an individualist economic order in which the needs of society are satisfied, usually, by economic enterprises" (Madgearu 1936, 121). In Romania, however, the two premises (namely 'the individualist economic order' and the enterprise as the 'dominant element of society') were not satisfied. Romania was, even in the Interwar period, a state characterised by economic and institutional backwardness. Madgearu gave four reasons in favour of this contention.

Firstly, after Romania entered the sphere of influence of Western capitalism, economic enterprises were to be found only in a couple of economic activities: "in commerce, the banking industry, transportation and insurances and in a small percentage in industry. In agriculture, however, following the land reform, we would typically have small, sustenance form of organization" (Madgearu 1940, 352). As a result, the economic structure of Romania even in the Interwar period was mainly socially-agrarian: "At the most fundamental level of our existence as a state lies agriculture; we are, beyond any reasonable doubt, a state made up of peasants. Through the forced elimination of feudalism by war, 90% of agriculture is dominated by small peasant households" (Madgearu 1936, 101). The only ties with capitalism that those small households had were mediated by trade.

Even though the relation between the peasant farming economy and the global market were dominated by the financial and commercial capital, the traditional economy was not influenced by exterior, modernizing factors: "Taking a closer look at the available data I have showed that there are some clear differences between the evolution of agriculture and industry. There is this specific characteristic of the development of agriculture. farming has an organic character and agriculture lies in a specific context in relation to the marketplace" (Madgearu 1944, 119). The economic structure of socially-agrarian states determined a revision of their political orientation, in order to realise the conditions for extending the farming output: credit, cooperatives and school. The smallest building block of Romania's economy, the peasant household, will "support a dense population, will intensify agricultural productivity and will establish for the industry an internal market, capable of consuming the produced stocks of goods and commodities" (Madgearu 1936, 43).

Secondly, the share the private capitalist sector was small in comparison to the non-capitalist segment of Romania's economy. As a consequence, "we cannot assert that Romania could be characterized as having a capitalist economic system" (Madgearu 1940, 360).

Furthermore, the non-capitalist character of the Romanian economy is also a result of the lack of capital for Romanian entrepreneurs. This aspect becomes evident if we compare three indicators: the import of machinery, the length of the railway infrastructure and the number of existing automobiles for different countries (Madgearu 1940, 360-361). Romania's economy (alongside other states from the Balkan Peninsula) was overpopulated, but under capitalized. Romania was a semi-capitalist state, with a predominantly agrarian socioeconomic institutional framework.

Last but not least, the structure of the active population was a specific one for an agrarian economy. According to the 1930 census, only 10,2% of Romanians worked in industry.

Taking into account Romania's economic backwardness and the artificial character of the process of industrialization, Madgearu argued in favor of abandoning the capitalist route and establishing a national peasant economy, non-capitalist in essence, without favoring, however, a socialist organization of the economy.

The development strategy advanced by Madgearu was criticized by Mihail Manoilescu. Even though for Madgearu economic development amounted to the expansion of small farming households (a process which will aim also at declining the rate of migration from rural to urban areas) for Manoilescu this would be unacceptable: "transforming the poverty of peasants from

densely populated areas into an economic ideal means that we do not wish that our farmers lead the life of the French or German farmers, but the life of misery of the Chinese peasant" (Manoilescu 1943, 219).

Furthermore, the intellectuals associated with the National Peasants' Party confused the role of the national industry with the bourgeois industry. The goal of the national industry should be that of providing a 'noble occupation' for the Romanian rural workforce. Manoilescu also argued that import tariffs were not to blame for the lack of agricultural productivity while also contending that the pessimism regarding Romania's conversion towards an industrial economy is not warranted.

Other economists and politicians, mainly liberals and neoliberals, considered that Romania had, in fact, a capitalist economic system. They were not alone in making this argument. Marxist scholars (due to ideological reasons) made a similar plea. Romania had a capitalist economic system, because socialism would be, as Marx predicted it, the next historical step.

According to liberal scholars and politicians, liberalism was the only possible way for social and economic progress, because the liberal doctrine was the only one capable of self improvement and of adapting to a wide range of social needs. The social, political and economic changes from the beginning of the 20th century were interpreted by liberals as a change of institutional setting and bringing forth a need of transforming even the liberal theory and practice. Starting from 1920, but mainly after 1930, they contended that absolute freedom was a necessary tool only in the early stages of capitalism (Duca 1923, 106).

With the passing of time, economic life became more and more complex. As a result, the need for taming the forces of the market was a pressing one in modern states, in order to achieve social and economic equilibrium. The former dogma of non-intervention on behalf of the state was to be abandoned.

Liberal scholars argued that, due to the difficulties and profound contradictions of the capitalist economy after the First World War, state intervention was necessary in order to have economic development. Interwar Romanian liberalism also accepted the practice of state intervention in other spheres of social life, not only in economic affairs. Manoilescu assessed that this shift in liberal doctrine was a clear sign that liberalism was in a crisis and that liberalism would evolve into neoliberalism. Adapting itself to the current conditions of economic development, Romanian neoliberalism tried to justify state intervention, while also trying to find a moral basis against classical liberalism (Manoilescu 1923, 141).

One of the most poignant figures associated with Romanian liberalism who asserted the capitalist character of the Romanian economy (in the Interwar period) was Ștefan Zeletin. In his two main works, *Burghezia română. Originea și rolul ei istoric (The Romanian Bourgeoisie. Its origins and historical role)* and *Neoliberalism* he advanced the thesis that there was nothing inherently different in Romania's path to capitalism: the Romanian economy followed the same steps as Western capitalist economies.

Zeletin focused his analysis on the traditional way in which capitalism is said to have started the process of influencing non-capitalist economies: through trade, imports of goods and capital, cheap labour and the establishing of industrial and financial capital. Even though he asserted that "the supremacy of the Great Finance was the result of our economic and historical evolution", Zeletin recognized that the Romanian economy was still profoundly agrarian: "the output of industry is only a quarter of the output from agriculture. This is a natural state of affairs, because all bourgeois states followed the same path in their history" (Zeletin 1991, 154).

Western capitalism went through the classical stages of evolution: mercantilism – liberalism – imperialism. Romanian capitalism had a slightly different path, argued Zeletin. He asserted that from the mercantilist phase, Romania's economy got straight to the imperialist stage, "to financial imperialist maturity, without passing through the youthful and exhilarating stage of liberal youth, which other economies lived" (Zeletin 1927, 71).

The stages of development discussed by Zeletin are presented as being accompanied by certain phases in the development of the bourgeois class in Romania. If between 1880 – 1905 they operate with banking capital, after 1905 Romanian banks (and the Romanian bourgeois) started financing industrial entrepreneurs, either by giving credit or by establishing a new industrial branch. It is in this process that "our capital transforms in the so-called financial capital, banking capital, that fuels both trade and industry" (Zeletin 1927, 40).

While we do not wish to assert that the ideas presented in this section amount to an in-depth, encyclopedic map of the debate surrounding the issue of economic development in Romania up to WWII, it still provides, in our opinion, a useful overview of the main elements of the debate. Moreover, some ideas are, if not consonant, at least coherent with a couple of the elements sketched in the previous section. Dogroeanu-Gherea, as we mentioned earlier, seems to allude to (even though he was a self-declared Marxist) a problem ingenious to the (neo)institutionalist approach. What he called new-serfdom was nothing more than a system dominated by extractive social and economic institutions.

His plea for inclusive institutions is consonant with what Acemoglu and Robinson might argue if they were to analyse Romania's economic situation in the Interwar period. The idea of economic backwardness seems to be ubiquitous in the analyses of Romanian scholars but they don't necessarily argue in favour of Gerschenkron's strategy for development.

The exception might be Zeletin, who considered that Romania managed to skip a step in its economic development, even though the country was still lagging behind rich Western capitalist stages. His approach also seems to be consonant with Rostow's perspective on the stages of growth and it seems to recognise what Schumpeter's observation regarding the cyclical character of capitalism. No economic or political scholar presented up to this point underlined the importance of innovation and innovative entrepreneurs.

4. PROVIDING AN EMPIRICAL INPUT

While the previous sections were focused primarily on theoretical issues surrounding the debate regarding economic development, we will conclude our paper with some empirical data in relation to the economic situation of Romania in the brink of WWII.

To begin with, we would like to affirm that we do not aim to provide an exhaustive approach of all the economic indicators generally used in comparative studies. As a result, we will focus on the indicators characterised by the highest degree of synthesising and complexity, calculated at a macroeconomic level. We will refer to the main indicators of the level of development (national income) and structural indicators (the share of different sectors of the economy in relation with the national income)¹.

National income is the main indicator in characterising and assessing the level of development of a national economy. Calculating the national income is a complex and difficult endeavour, sometimes prone to error, either on the basis of suboptimal fact checking or imprecision or because it is impossible to acquire full knowledge of the analysed period. Even possessing complete statistical data, results may vary due to different theoretical frameworks or methods employed.

It is no wonder, then, that not all economists who tried to calculate the national income of Romania in the Interwar period do not coincide, sometimes even in the case of the same author. For example, for the year 1929 the national income was estimated (by Iordan and Georgescu in *Enciclopedia României*) at 275,2 billion Lei. Virgil Madgearu, on the other hand, evaluated the national income in that year at 165,3 billion Lei (Madgearu 1932, 15), though in other writings he changed that estimate to 195,5 billion Lei (Madgearu 1933, 53). As a result, while in the first scenario the per capita income was 9.632 Lei, in the latter it was 10.568 Lei.

Leaving this theoretical difficulties aside, we consider that an eloquent illustration of Romania's difficult economic development in the decades preceding WWII would be a comparison between Romania and other European countries in 1938, as presented in **Table 1**.

Table 1. Per capita national income in Romania and other European countries in 1938

Country	Level \$/place.	Gap in comparison to Romania		Rank	Country	Level \$/place.	Gap in comparison to Romania		Rank
		Abso- lute (0)	Rela- tive (1,0)				Abso- lute (0)	Rela- tive (1,0)	
Great Britain	378	+327	4.97	I	Finland	180	+104	2.37	XII
Switzerland	367	+291	4.83	II-III	Czechoslova kia	174	+98	2.29	XIII
Sweden	367	+291	4.83	II-III	Italy	127	+51	1.67	XIV
Germany	338	+262	4.45	IV	Hungary	111	+35	1.46	XV
Netherlands	324	+248	4.26	V	Poland	104	+28	1.37	XVI
Denmark	318	+242	4.18	VI	Greece	80	+4	1.05	XVII
Belgium- Luxembourg	285	+209	3.75	VII	Romania	76	0	1	XVIII
Norway	252	+176	3.31	VIII	Bulgaria	68	-8	0.89	XIX- XX
Ireland	248	+172	3.26	IX	Yugoslavia	68	-8	0.89	XIX- XX
France	237	+161	3.12	X	Median level	222	+146	2.92	
Austria	181	+105	2.38	XI	USA	521			

Source : Economic Survey of Europe in 1948, Geneva 1949, 235 ; Dobre 1996, 138

The data presented are quite illuminating. From the 20 countries compared, Romania (with a per capita national income of 76\$) occupies the 18th place, just before Bulgaria and Yugoslavia. In comparison to Great Britain, the gap can be explained using the following ratio: 4,97:1. Significant gaps were also to be found in relation with Switzerland, Sweden, Germany or Netherlands.

What do all this countries had in common, as opposed to Romania? North, Acemoglu and Robinson would argue in favour of the fact that those societies were among the first that adopted inclusive social and economic institutions, which favoured their economic development. Schumpeter might also suggest that, in comparison to Romania, they had constant innovation and innovation entrepreneurs.

Furthermore, taking a closer look at **Table 2** (namely the value and structure of industrial production, agricultural production and the construction sector) and **Table 3** (the structure of the national income in Romania and other countries in 1938) will prove useful.

Table 2. The value and structure of industrial production

Country	Level – mil. \$, 1938 prices	Structure in %		
		Agriculture	Industry	Constructions
Germany	12.958	20	70,0	10,0
Great Britain	8.688	8,4	77,1	14,5
France	5.680	34,4	55,5	10,1
Italy	3.085	35,6	53,3	6,1
Poland	2.145	54,3	33,1	12,6
Czechoslovakia	1.500	31,1	58,3	10,6

Country	Level – mil. \$,	Structure in %		
Sweden	1.281	20,1	60,2	19,7
Belgium-	1.273	21,4	65,2	13,4
Luxembourg				
Netherlands	1.143	28,1	58,2	13,7
Romania	915	63,0	30,9	10,5
Switzerland	776	22,0	69,1	8,9
Austria	683	29,7	58,6	11,7
Denmark	629	38,0	51,5	10,5
Hungary	580	52,6	41,6	5,8
Norway	388	19,8	56,4	23,8
Finland	369	31,8	34,6	33,6
Ireland	337	55,2	37,1	7,7
Bulgaria	266	71,8	24,4	3,8
Total	42.723	25,6	62,9	11,5

Source: Dobre 1996, 141 ; Economic Survey of Europe in 1948, Geneva, 1949, 21

As we can easily observe agriculture still had, even in 1938, an impressive share in Romania's national income. With 63% (double what the industry brought) it is fair to say that Romania was still an agrarian, backward economy. In Rostow's terms, what might explain Romania's difficult economic development was the fact that the country was still in a transitional stage, laying out the preconditions for take-off. Romania was not, however, the only economy in this situation. Other countries like Bulgaria, Poland, Hungary or Ireland were in a similar situation, with agriculture contributing massively to the structure of the national income, while industry was still underdeveloped and contributing less.

Table 3. The structure of national income in Romania and other countries in 1938

Țara	Level, mil.\$, 1938 prices	Structure in %			
		Agriculture	Industry	Constructions	Services
Germany	23.140	11,2	39,2	5,5	44,0
Great Britain	18.020	4,1	37,1	7,0	51,8
France	9.860	19,8	32,0	5,8	42,4
Italy	5.560	19,8	32,3	3,4	44,5
Poland	3.600	32,3	19,8	7,5	40,4
Netherlands	2.810	11,4	23,7	5,6	59,3
Czechoslovakia	2.690	17,4	32,5	5,9	44,2
Belgium-	2.390	11,4	34,7	7,1	46,8
Sweden	2.310	11,2	33,4	10,9	44,5
Switzerland	1.540	11,1	34,8	4,5	49,6
Romania	1.500	38,4	16,9	5,7	39,0
Austria	1.220	16,6	32,8	6,6	44,0
Denmark	1.200	19,9	27,0	5,5	47,6
Hungary	1.020	29,9	23,6	3,4	43,1
Norway	740	10,4	29,6	12,4	47,6
Ireland	730	25,5	17,1	3,6	53,8
Finland	660	19,1	20,7	20,2	40,0
Bulgaria	430	44,4	15,1	2,3	38,1
All countries	79.420	13,7	33,9	6,2	46,2

Source : Economic Survey of Europe in 1948, 1949, 21, 235 ; Dobre 1996, 137

A technical explanation for this phenomenon resides in the fact that the Romanian economy had a low level of mechanisation and a low social productivity of work in comparison to more developed Western capitalist economies. What the previous data shows, by and large, is that in comparison to industrialised states, the productivity of a Romanian worker was between 2-3 times lower in industry and between 3-7 times lower in agriculture. Moreover, the cumulative effect of the weak endowment of labour with technical and mechanical technology, a low level of work qualification and the partial utilisation of the time available of the active population amounted to a low national income and to a slow process of economic development in comparison to richer, more industrialised Western capitalist states.

5. CONCLUDING REMARKS

The purpose of our study was rather descriptive than normative. Far from assuming a single theoretical background for assessing the causes of Romania's slow economic development up to WWII, we chose a pluralist approach, highlighting the methodological relevance of inclusive institutions, innovations and innovative entrepreneurs, Rostow's stages of growth and Gerschenkron's concept of economic backwardness. Each theory, in part, tries to shed light on some of the relevant aspects of the debate. Furthermore, we also opted for presenting a map of the key elements from the Interwar period regarding Romania's poor economic performances and we tried to correlate, in part, some of those elements with previously presented theoretical aspects. Last but not least, we concluded our study with an analysis of the main indicators of the level of economic development and with a short presentation of some structural indicators.

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i We will leave aside social and qualitative indicators such as the degree of employment of human capital expressed by work productivity, the structure of the population on various scales and criteria, etc.